

Section III

Federal Award Findings and Questioned Costs

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Department of Education

Introduction

Article IX of the Colorado Constitution created the State Board of Education and provides for the establishment and maintenance of a thorough and uniform system of free public schools. The duties of the State Board in Section 22-2-106, C.R.S., include exercising general supervision over public schools of the State for children in kindergarten through the twelfth grade.

The State Board of Education, made up of seven members, oversees the Department of Education. The Department of Education carries out the policies of the State Board by assisting local school districts, Boards of Cooperative Education, and other local educational agencies in various ways such as:

- Developing policies.
- Supervising accreditation and accountability.
- Providing consulting services.
- Overseeing teacher certification.
- Assisting special education programming.

The Department of Education is directed by the Commissioner of Education, Deputy Commissioner of Education, and Chief of Staff. Each Division is under the authority of an assistant commissioner and comprises various federal and state programs as follows:

Division

Educational Services
 Management, Budget, & Planning
 Professional Services
 Special Services
 State Library & Adult Education Office

Federal & State Programs

Nutrition and Transportation
 Public School Finance and Title VI
 Educator Licensing
 Title 1
 Adult Basic Education/GED and
 Library Service Systems

The following comments and recommendation were prepared by the public accounting firm of KPMG Peat Marwick, LLP, who performed audit work at the Department of Education.

During our audit we found the Department, in general, has satisfactory controls over the administration of federal programs and financial processes in accordance with the requirements of the Single Audit Act Amendment of 1996 and the Office of Management and Budget Circular A-133. We identified one area where controls could be improved - strengthening the subrecipient monitoring procedures in one of the federal programs administered by the Department.

Follow Established Procedures to Monitor Timely Submission of On-Site Review Reports

The largest federal program for school nutrition at the Department of Education is the National School Lunch program (CFDA #10.555). During Fiscal Year 1997 the Department had expenditures of approximately \$45 million in federal funds for this program. The Nutrition Unit at the Department is charged with administering this program.

Our review indicated that the Department has established monitoring procedures for the 173 local educational agencies (LEAs) that administer the National School Lunch program across the State. These procedures include on-site reviews conducted by Department staff to determine whether the LEAs are in compliance with applicable federal and state regulations. To ensure resolution of compliance issues in a timely manner, the Nutrition Unit of the Department has established time frames for its on-site review process.

The U.S. Office of Management and Budget (OMB) Circular A-133, Subpart D, states that the Department, a pass-through entity, is responsible for:

- Identifying for the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements.

- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

The Nutrition Unit established a time frame for the on-site review process that requires completion of fieldwork and a response to the LEAs within 90 days. The 90 days include 60 days for the consultant (a nonclassified staff person with the Department) to complete the report and 30 days for the reviewer to review and clear any issues within the report.

Reporting in a timely manner and resolution of compliance issues is an important component of the oversight process. The Department's monitoring procedures for the National School Lunch program are designed to assist the LEAs in identifying areas where improvements need to be made to ensure that children receive the services the program is intended to provide. By not reporting complete and timely information, the Department cannot resolve compliance issues in a timely manner. This puts the Department in noncompliance with federal regulations which may result in the loss of the federal assistance.

We tested the Department's compliance with its subrecipient monitoring procedures. We found that for the 11 on-site review reports tested:

Nine reports were completed by the Department in a timely manner.

- Two reports were not completed properly by the Department in a timely manner.
- The first exception noted was from the Clear Creek RE-1 school on-site review that was conducted on April 22, 1997. The Department should have completed the on-site review report by June 22, 1997, in accordance with Department policy.
- The second item noted was from the Adams 14 school on-site review that was conducted on February 27, 1997. The on-site review report (form SFA-2) for the Adams 14 school was not completed by the consultant. The consultant should have completed the form SFA-2 on the day of the review.

The Department has adequate on-site review procedures in place. It appears, however, that the above findings were due to a staffing shortage during the first half of the year,

the need for additional training and communication regarding these procedures, and a need for more oversight by the appropriate management in the Department. We noted that the Department has hired a staff person who will oversee the report review process, but that individual had not obtained the full training as of the date of our review.

Recommendation No. 16:

The Department of Education should improve the submission of the Nutrition Unit's on-site review reports to the LEAs in a timely manner by ensuring training is conducted in a timely manner for all new staff to attain the knowledge of the on-site review procedures and the applicable compliance issues.

Department of Education Response:

Agree. As stated above, the staff position that was vacated over a year ago has been filled and the consultant will be responsible for the internal monitoring of the Coordinated Review Effort of the Department. A training on the Coordinated Review Effort process and related forms was conducted by a representative of the Mountain Plains Regional Office on October 29, 1997, for the nutrition staff. Follow-up meetings have been scheduled in November and December of 1997 and will address the Department's internal procedure for completion of the Coordinated Review Effort.

Department of Health Care Policy and Financing

Introduction

The Department of Health Care Policy and Financing (DHCPF) was established on July 1, 1994, to administer the State's medical assistance programs. The largest of these is the Medicaid program, which reimburses providers for the cost of medical services they furnish to low-income citizens in Colorado. DHCPF is an active participant in health care reform and provides significant resources and information in developing the health care environment in Colorado. DHCPF's expenditures are funded about equally by federal funds and state general funds. Expenditures totaled approximately \$1.6 billion in Fiscal Year 1997. Approximately 95 percent of these expenditures were for Medicaid-related services.

The public accounting firm of Ernst & Young, LLP, performed the audit work at DHCPF as of and for the fiscal year ended June 30, 1997. During its audit Ernst & Young reviewed and tested DHCPF's internal controls over accounting and administrative functions and federal programs. The audit included examination of account balances and evaluation of DHCPF's compliance with state and federal rules and regulations. The auditors identified two areas in internal controls that need improvement: management of accounts receivable and oversight procedures for potential recoveries of Medicaid overpayments to individuals. The following comments and recommendations were prepared by Ernst & Young, LLP.

Improve Management of Accounts Receivable

See Recommendation No. 2 in Section II of the Schedule of Findings and Questioned Costs.

Increase Departmental Oversight for Recoveries of Medicaid Overpayments

See Recommendation No. 3 in Section II of the Schedule of Findings and Questioned Costs.

Department of Higher Education

Introduction

The Department of Higher Education was established under Section 21-1-114, C.R.S., and includes all public higher education institutions in the State. It also includes the Auraria Higher Education Center, the Colorado Advanced Technology Institute, Colorado Commission on Higher Education, the Colorado Council on the Arts, the Colorado Student Loan Division, the Colorado Historical Society, and the Division of Private Occupational Schools.

The State has 24 public institutions of higher education that are governed by six different boards. The governing boards and the schools they oversee are:

- **Board of Regents of the University of Colorado**

University of Colorado at Boulder
University of Colorado at Colorado Springs
University of Colorado at Denver
Health Sciences Center

- **State Board of Agriculture**

Colorado State University
Fort Lewis College
University of Southern Colorado

- **Trustees of the State Colleges of Colorado**

Adams State College
Mesa State College
Metropolitan State College of Denver
Western State College

- **State Board for Community Colleges and Occupational Education (SBCCOE)**

11 Community Colleges

- **Trustees of the University of Northern Colorado**

University of Northern Colorado

- **Trustees of the Colorado School of Mines**

Colorado School of Mines

The audit recommendations to higher education agencies and institutions follow.

Board of Regents of the University of Colorado

The Board of Regents is charged constitutionally with the general supervision of the University and the exclusive control and direction of all funds of the appropriations to the University, unless otherwise provided by law. The University consists of central administration and four campuses: Boulder, Denver, Health Sciences Center (HSC), and Colorado Springs. The four campuses comprise 16 schools and colleges that offer more than 140 fields of study at the undergraduate level and 100 fields at the graduate level.

University of Colorado

The University of Colorado was authorized on November 7, 1861, by an Act of the Territorial Government. When Colorado became a state in 1876, the University was declared an institution of the State of Colorado.

The following comment and recommendation was prepared by the public accounting firm of KPMG Peat Marwick, LLP, who performed audit work at the University of Colorado.

Subrecipient Monitoring

The University receives numerous grants from federal government agencies, which are partially or fully passed through to entities outside of the University. In 1997 the University passed through approximately \$8,000,000 and \$11,000,000 at Boulder and HSC, respectively. The University as a pass-through entity is responsible for:

- Identifying the federal award information and applicable compliance requirements for the subrecipient;

- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements;
- Ensuring that required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings; and
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Further, the University is responsible for ensuring federal awards are spent properly in accordance with grant and contract agreements and federal regulations. Accordingly, if the federal grantor questions any expenditures, whether incurred by the subrecipient or the University directly, the University is liable for the questioned costs and can be required to repay the grantor.

At Boulder, we noted the campus reviews subrecipient files twice a year to identify which reports have been received and makes follow-up calls to request those reports that have not been received; however, no formal documentation is maintained of this review and follow-up. Although the HSC had procedures in place to monitor subrecipients, our review of ten subrecipients' reports noted four which were not received in a timely manner. Of these late reports, it appears HSC did make initial attempts to obtain the reports; however, additional efforts were not made to acquire missing reports.

As a result, the Boulder and HSC campuses are unable to fully monitor subrecipient activities and provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements. Without strong monitoring controls, both campuses will have increased risk of noncompliance when the provisions in the recently revised OMB Circular A-133 become effective; these provisions require entities to submit their reports within nine months as opposed to the current thirteen months.

This finding involves federal funds received from the Henry Ford Hospital System and the Eleanor Roosevelt Institute as pass-through entities from the Department of Health and Human Services.

Recommendation No. 17:

The University of Colorado at Boulder should develop a formal procedure to ensure audit reports are received in a timely manner, findings are resolved, and subrecipients are complying with federal requirements. For instance, a log of subrecipients could be maintained noting the date the report was requested, date received, and resolution

of any findings. If a report cannot be obtained, a notation should be made as to the campus' resolution as to whether or not the subrecipient is in compliance with laws and regulations.

The University of Colorado at Health Sciences Center should improve current procedures to ensure subrecipient reports are received in a timely manner. If a report is not received in the allowable time period, a notation should be made as to how HSC ensured the subrecipient's compliance with grant provisions.

University of Colorado at Boulder and Health Sciences Center Response:

The University of Colorado at Boulder concurs. The Office of Contracts and Grants (OCG) has modified their subrecipient database to include a data field that lists audit reports required by fiscal year, and a box to be checked upon receipt. A search of the database for audit reports still outstanding will be performed to trigger a form letter requesting the required reports from subrecipients to meet the thirteen or nine-month period, as required. OCG will determine the effect of any findings on the project and will take appropriate action to meet federal program compliance requirements. Implementation is effective immediately.

The University of Colorado Health Sciences Center concurs. A subrecipient log will be created by January 31, 1998, to list all subrecipients and the date an audit was requested from them. Subsequent follow-up for receipt of the audit report will occur to meet the thirteen or nine-month requirement. If a subrecipient indicates an audit report will not be sent in a timely manner, this will be noted on the log with comments as to the reason for the delay and when the report will be received. Action will be taken if there is any significant delay in receipt of the report to ensure the subrecipient is complying with all applicable grant provisions. This would include the completion of a certification statement by the subrecipient or other similar actions to meet federal program compliance requirements.

State Board of Agriculture

The State Board of Agriculture has control and supervision of three distinct institutions: Colorado State University -- a land-grant university; Fort Lewis College -- a liberal arts college; and the University of Southern Colorado -- a regional university with a

polytechnic emphasis. The Board is also responsible for the Colorado State University Agricultural Experiment Station, the Cooperative Extension Service, and the Colorado State Forest Service.

The Board administers the State Board of Agriculture Fund located at the State Treasury. The Board is authorized to fix tuition, pay expenses, and hire officials. The chief academic and administrative officers are the Chancellor of the Colorado State University System and the President of each institution.

Colorado State University System

Colorado State University, Fort Lewis College, and the University of Southern Colorado have been consolidated as a single financial reporting entity -- the Colorado State University System (CSUS).

Colorado State University

The following comments were prepared by the public accounting firm Grant Thornton LLP, who performed audit work at Colorado State University.

Sponsored Programs - Approval of Electronic Journal Entries

See Recommendation No. 4 in Section II of the Schedule of Findings and Questioned Costs.

Monitoring Subrecipients of Federal Awards

As stated in OMB Circular A-133 Compliance Supplement (revised June 24, 1997), "a pass-through entity is responsible for monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements, ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings and evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations."

The University is a pass-through entity which is responsible for monitoring the subrecipients' activities. Currently the University receives audited financial and single

audit reports from subrecipients prior to the awarding of a subcontract. However, they do not have procedures in place to receive financial reports subsequent to the awarding of subcontracts which run longer than one year. Implementing a procedure to obtain audited financial and single audit reports on an annual basis would ensure compliance with federal regulations and result in further assurance that funds were controlled and spent properly during the award period.

In addition, the University monitors subrecipients based on total contract amounts rather than annual expenditure amounts. The University should monitor subrecipients with annual expenditures exceeding \$300,000 as required per the revised OMB Circular A-133. This should reduce the workload of the University's Sponsored Program staff while complying with federal regulations.

Recommendation No. 18:

Colorado State University should implement procedures whereby a designated individual reviews single audit reports from subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year.

Colorado State University Response:

Partially agree. Sponsored Programs has revised its procedure to obtain an annual certification from all subrecipients to meet the notification and submission requirements specified in OMB Circular A-133, Section 320(c) (1) and (2). Recipients with any of the findings specified in (1) will be required to submit the reporting package, which will be reviewed by the CSU Audit Liaison.

Fort Lewis College

The following comments and recommendations were prepared by the public accounting firm of Chadwick, Steinkirchner, Davis and Co., P.C., who performed audit work at Fort Lewis College.

Federal Perkins Loan Program

For one of three Perkins Loan default files reviewed, the College did not indicate a "Final Notice" was sent or a telephone communication was attempted prior to the account being forwarded for collection. This is part of the due diligence billing procedure

requirement. The U.S. Department of Education (U.S.D.E.) feels that follow-up attempts, particularly by telephone, are very effective in getting the borrower to begin repayment of a defaulted loan and this would avoid more costly collection procedures.

Recommendation No. 19:

Fort Lewis College should revise the Perkins Loans billing procedures to comply with the federal requirements.

Fort Lewis College Response:

Agree. The College Perkins Loan billing procedures are established to comply with federal regulations. In the one loan default file found not to be in compliance, the borrower had sent a payment prior to the billing of the "final demand" notice at 60 days past due. The check was subsequently returned by the bank because of insufficient funds. The billing cycle then processed the account at the 90 days past due acceleration notice, thereby skipping the 60 day final demand notice.

Calculation of Refunds of Federal Student Financial Assistance

The College did not use the "Last Date of Attendance" to calculate the amount of refunds due for five of ten refund calculations tested. Instead, the "withdrawal date" was used for the calculation. A refund/repayment calculation is made to determine if money is due back to a federal program if the student withdraws prior to completion of the semester. If the incorrect date is used in the calculation of the refund/repayment, it could result in the program being refunded an incorrect amount. For the files tested, the use of the incorrect date did not result in any differences in the calculated refunds.

Recommendation No. 20:

Fort Lewis College should ensure that "the last date of attendance" is used when calculating financial aid refunds.

Fort Lewis College Response:

Agree. We will use the "last date of attendance" when calculating financial aid refunds and repayments.

Note: Two of the five students referenced in the finding withdrew from school after the refund/repayment period had ended. Therefore, no calculation was necessary as the date used was of no consequence. The remaining three refunds were calculated using the "withdrawal date" in lieu of "the last date of attendance" since it would not make any difference in the amount of the refunds.

Pell Underawards for Fiscal Years 1993 and 1994

The institution made proper Pell awards to eligible students of \$44,455 during Fiscal Years 1993 and 1994 for which it still has not received funds or credit from the U.S.D.E. The students were properly awarded and paid the Pell funds during the periods in question. However, the information was not received by the U.S.D.E. via their data exchange system with the College. Since becoming aware of the problem in 1995, the College has attempted to get the Pell Payment Data report adjusted by following procedures prescribed in U.S.D.E.'s Dear Colleague Letter (GEN 94-14). The Colorado State Auditor's Office has performed certain required tests and has certified to the U.S. Department of Education that the awards and disbursements were appropriate. The College's Financial Aid Office has followed up on the status of the process several times in writing and via telephone contacts to various U.S.D.E. offices during 1996 and 1997.

Recommendation No. 21:

Fort Lewis College should continue its efforts to obtain credit for the Pell awards for Fiscal Years 1993 and 1994 from the U.S. Department of Education.

Fort Lewis College Response:

Agree. The college will continue its quest to seek resolution to this issue. As recently as October 16, 1997, a representative of the financial aid office spoke with an employee of the U.S. Department of Education in the Denver Regional Office and was assured that the proper office in Washington, D.C. was being

queried as to the status of the request for the funds to cover the Pell Grant overawards for Fiscal Years 1993 and 1994.

Trustees of the State Colleges of Colorado

The Board of Trustees of the State Colleges in Colorado (State Colleges) is the governing board for Adams State College, Mesa State College, Metropolitan State College of Denver, and Western State College. Recognizing that each of the colleges has a singular role to play in a system committed to excellence in teaching, the Board of Trustees provides the direction, incentives, and resources to empower its faculty, students and staff. The Trustees are statutorily charged with responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The Board consists of seven members appointed by the Governor to serve four-year terms. Additionally, a faculty and student Trustee are elected to serve one-year terms. The President of the State Colleges is responsible for providing leadership for the system and for administering the policies and procedures of the Trustees. The Board conducts its business at regular monthly meetings and special meetings; all are open to the public.

Metropolitan State College of Denver

Metropolitan State College of Denver strives to offer high-quality, accessible education to a diverse student population. Metropolitan State College of Denver is dedicated to cultural pluralism and sensitivity, teaching excellence, high academic standards, and service to the greater metropolitan community.

The following comments and recommendations were prepared by the public accounting firm of Anderson & Whitney, P.C., who performed the audit work at Metropolitan State College of Denver.

Strengthen Controls Over Student Financial Assistance Programs Relevant to Exit Counseling and Eligibility

To reduce defaults by Stafford Loan borrowers, schools are required to send exit counseling materials to students within 30 days after learning that a student is no longer attending classes and has failed to attend an exit counseling session. In our test of 25 student financial aid recipient files, we noted the College did not send exit counseling

materials to 3 students who had received Stafford Loans (CFDA #84.032) for the fall 1996 semester and who did not enroll for the spring 1997 semester. The College does not have complete procedures to determine which Stafford Loan recipients have not enrolled for a subsequent semester, and therefore require exit counseling. In addition, our review indicated that the College awarded Colorado Diversity grants totaling \$4,000 to 20 recipients who were not qualified to receive the grant because they were not Colorado residents.

Recommendation No. 22:

Metropolitan State College of Denver should strengthen controls over student financial assistance programs so that exit counseling requirements are completed and Colorado Diversity grant awards are only made to eligible students.

Metropolitan State College of Denver Response:

Agree. Metropolitan State College of Denver will continue to improve its student financial assistance policies and procedures.

State Board for Community Colleges and Occupational Education

The State Board for Community Colleges and Occupational Education was established by “The Community Colleges and Occupational Education Act of 1967,” Title 23, Article 60 of the Colorado Revised Statutes. The Board functions as a separate entity and, as such, may hold money, land, or other property for any educational institution under its jurisdiction. The statute assigns responsibility and authority to the Board for three major functions:

- Govern the State’s system of community and technical colleges.
- Administer the occupational education programs of the State at both secondary and postsecondary levels.
- Administer the State’s program of grants to local district colleges and area vocational schools.

The following comments and recommendations were prepared by the public accounting firm of Arthur Andersen, LLP, who performed audit work at the Colorado Community Colleges and Occupational Education System.

Community Colleges and Occupational Education System

The eleven colleges in the Colorado Community Colleges and Occupational System (CCCOES) include Arapahoe, Aurora, Denver, Front Range, Lamar, Morgan, Otero, Pikes Peak, Pueblo, Red Rocks, and Trinidad.

Red Rocks Community College

Assignment of Responsibilities – Refund Policy

A school receiving federal student financial aid is required to have a refund policy under which the school submits refunds to the Department of Education within 30 days for unearned student financial aid (i.e., a student who withdraws prior to the end of a semester for which he or she received aid has only earned a portion of that aid). In our review of the refund policy at Red Rocks Community College, we noted the responsibilities involved in carrying out this policy are not clearly assigned to a specific employee, which could result in improperly handled refunds.

Recommendation No. 23:

Red Rocks Community College should designate a specific individual to be responsible for ensuring the Refund Policy is followed.

Red Rocks Community College Response:

Agree. Responsibility for pro-rata financial aid refunds is now assigned to the manager of the Cashier's Office.

Otero Junior College

Refund Policy

A school receiving federal student financial aid is required to have a refund policy under which the school submits refunds to the Department of Education for unearned student financial aid (i.e., for a student who withdraws prior to completion of a specified percentage of the academic semester). During our review of a statistically valid sample of financial aid recipients (22 out of 934), we noted a Pell refund (CFDA #84.063) to a student who did not complete the academic semester was not processed in a timely manner. Once notified, Otero Junior College processed this refund immediately. We understand that procedures are in place to ensure all refunds are processed prior to the fiscal year end.

Recommendation No. 24:

Otero Junior College should implement a procedure for identifying, in a timely manner, those students whose accounts require a refund of federal financial aid. This could be accomplished by periodically reviewing a report detailing the last date of attendance for federal financial aid recipients.

Otero Junior College Response:

Agree.

Front Range Community College

Reconciliation of Cash Reports to the General Ledger

See Recommendation No. 5 in Section II of the Schedule of Findings and Questioned Costs.

Trustees of the Colorado School of Mines

The Board of Trustees is the governing body of the Colorado School of Mines and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms, and one nonvoting student member elected by the student body.

Colorado School of Mines

The Colorado School of Mines was founded on February 9, 1874. The primary emphasis of the Colorado School of Mines is engineering and science education and research. The authority under which the School operates is Article 40 of Title 23, C.R.S.

The following comments and recommendations were prepared by the public accounting firm of Deloitte & Touche, LLP, who performed audit work at the Colorado School of Mines.

Printing of Revised Award Letters When Financial Aid Awards are Modified

During our testing of 25 federal financial aid selections, we noted that the Financial Aid Office does not always print a revised award announcement when modifications are made to a student's financial aid package.

If award announcements are not printed after revisions, then a student may not be aware of his or her final award types and amounts. These announcements are not automatically reprinted since the financial aid software is not configured to print an award announcement whenever changes are made.

Recommendation No. 25:

It is recommended that the Colorado School of Mines Financial Aid Office continue to make a concerted effort to print award letters whenever a change occurs in the source or amount of a student's funding. One copy of the announcement should be mailed to the student and the other copy should be retained in the student's financial aid file.

Colorado School of Mines Response:

Agree. The Financial Aid Office will be instructed to print a new award letter whenever any change occurs in the source of a student's funding, or if a significant change occurs in the amount of a student's funding. As this finding has been repeated from the findings and recommendations from Fiscal Year 1996, effective

immediately the School's institutional financial aid program policies distributed to the Financial Aid Department have been updated to include this procedure.

Budget Revision Memo is not Signed or is Sent by Someone Other Than the Principal Investigator

During our testing of five budget revisions in Fiscal Year 1997 we noted that two of our selections were either not signed by the principal investigator or were prepared by someone other than the principal investigator with no indication of authorization by the principal investigator as required by School policy. Since the principal investigators are responsible for determining the appropriateness of budget revisions, one of their signatures is required to begin the budget revision process. The budget revision process should not proceed until a signed memo is received from the principal investigator or sponsoring agency to be sure proper authorization has been given.

This finding potentially involves federal funds for research and development passed-through from Arizona State University, TDA Research, Technical Education Research Centers, Worcester Polytechnic, ADA Technologies, Advanced Sciences, BDM Oklahoma, Coors Ceramics, Energy and Environmental Analysis, Green Development, Lockheed Martin, MIT, Manufacturing Sciences, PTTC, RUST Geotech, Raytheon Services, Rocky Flats Local Impact, Solarex, TRW Environmental Safety Systems, Texas A & M, the University of California, and Wendt & Associates.

Recommendation No. 26:

It is recommended that a signed memo from the principal investigator or sponsoring agency be received for authorization to begin budget revision requests. It is also recommended that the Colorado School of Mines develop written policies for the principal investigator to follow regarding the submission and requirements of these memos. Due to the advantages and capabilities of electronic mail exchange, many of the requests may be processed through this means of communication. We recommend that these electronic mail requests be printed and maintained in the project file for further authorization referencing.

Colorado School of Mines Response:

Agree. The Office of Research Services (ORS) will instruct all principal investigators who do not properly authorize the budget revision memo with their signature, that the budget revision process cannot begin until proper authorization is given by an authorizing signature.

Federal Grants are not Closed out in a Timely Manner

Last year we found that approximately 244 grants were greater than 90 days past due for closeout. In the current year we noted that of the grants closed prior to Fiscal Year 1997, 27 grants were substantially past due for closeout. Additionally, of those grants closed during Fiscal Year 1997, 177 grants were substantially past due for closeout. Federal financial reporting requirements state that closeout reports must be submitted within 90 days of project completion.

Although Colorado School of Mines is taking steps to complete closeout procedures for those grants past due, 37 past due grants have not been closed. The Fiscal Services Department has made substantial progress toward the timely closeout of completed projects. The Department has been able to implement many planned controls that have proven to be effective. However, the timely return of documents from the principal investigators and receipt of payment from the sponsoring agencies continues to delay the closeout procedures.

This finding could potentially affect the federal awards with the Colorado School of Mines for the following federal and pass-through entities: the Departments of Agriculture, Commerce, Defense, Energy; the Environmental Protection Agency; the National Aeronautics Space Association; the National Science Foundation; the University of Kentucky; the University of Missouri; the University of Nevada; Pioneer Astronautics; Robotics Research; Arizona State University; TDA Research; Technical Education Research Centers; Worcester Polytechnic; NEIWPCC; ADA Technologies; Advanced Sciences; BDM Oklahoma; Coors Ceramics; Energy and Environmental Analysis; Green Development; Lockheed Martin; MIT; Manufacturing Sciences; PTTC; RUST Geotech; Raytheon Services; Rocky Flats Local Impact; Solarex; TRW Environmental Safety Systems; Texas A & M; the University of California, and Wendt & Associates.

Recommendation No. 27:

Colorado School of Mines and the Research Services Department should continue to implement the procedures and controls necessary to ensure that all closeout reports and reimbursement requests are submitted as timely as possible following the completion of a project. On the basis of the results of testing performed on the closeout of completed projects, it is recommended that planned procedures and controls be implemented to focus on the timely receipt of payment from the sponsoring agencies.

Colorado School of Mines Response:

Agree. Fiscal Services and the Office of Research Services (ORS) have been diligently working in a coordinated effort to realize continued improvement in the timeliness of project closeouts. New forms and other internal documents have been successful in enhancing the exchange of necessary information between the principal investigator, ORS, and Fiscal Services. In addition, a staff person has just been recently hired full-time to handle the problems and communication breakdown with the payment (cost reimbursement) from the sponsoring agencies.

Department of Human Services

Introduction

The Department of Human Services (DHS) is solely responsible by statute for administering the State's public assistance and welfare programs. Most of these programs are administered through local county or district departments of social services. The Department also manages programs in the areas of youth corrections, mental health, rehabilitation, and developmental disabilities. In terms of appropriations, the Department was the fourth largest of the State's 22 departments in Fiscal Year 1997. In terms of personnel, the Department had 7,570.3 full-time equivalents or FTE (4,361.2 state; 3,209.1 county) and expended approximately \$1.1 billion during the year.

We reviewed and tested the Department's internal accounting and administrative controls, and evaluated compliance with state and federal rules and regulations. While we found the Department had adequate controls overall, we noted continuing concerns in the fiscal management of grant activity related to cash draws made for federal programs.

We also noted some issues regarding the use and treatment of federal indirect cost reimbursements and the need for formalized contracting for vendor services in the Division of Disability Determination Services.

Implement a More Comprehensive Fiscal Management System for Federal Programs

See Recommendation No. 6 in Section II of the Schedule of Findings and Questioned Costs.

Department of Public Health and Environment

Introduction

The Department of Public Health and Environment is authorized by Section 24-1-119(1), C.R.S. The Department is responsible for monitoring environmental quality, assuring the quality of health services, and maintaining health data for the State. The mission statement states that the Department is “dedicated to protecting and improving the health and environment of the people of Colorado.” The 11 major divisions are as follows:

- Health Facilities
- Emergency Medical Services and Prevention
- Disease Control and Environmental Epidemiology
- Family and Community Health Services
- Health Statistics and Vital Records
- Air Pollution Control
- Water Quality Control
- Hazardous Materials and Waste Management
- Consumer Protection
- Laboratory and Radiation Services
- Administrative Services

For Fiscal Year 1997 the Department had an operating budget totaling \$203,425,246. This budget supports 1,069.7 full-time equivalents (FTE).

The following comments and recommendations were prepared by the public accounting firm of Johnson, Holscher & Company, P.C., who performed audit work at the Department of Public Health and Environment.

Continue Efforts to Implement Indirect Cost Methodology

See Recommendation No. 13 in Section II of the Schedule of Findings and Questioned Costs.

Department of Transportation

Introduction

The Colorado Department of Transportation is responsible for programs that impact all modes of transportation. Its operations are governed by the State Transportation Commission.

About one half of the Department's expenditures are related to construction funded by the Federal Highway Administration (FHWA) and state capital construction funds. Most of its other expenditures are funded by the Department's portion of the State Highway Users Tax Fund (i.e., the State Highway Fund) and various aviation-related taxes. The Department also receives monies from other federal agencies that it passes through to local governments and other entities for highway safety and transportation improvement programs.

The FHWA funds are used for research, planning, and construction of highways. The State Highway Fund pays for highway maintenance and operations and about 20 percent of any highway construction not covered by FHWA funds.

The following comments were prepared by the public accounting firm of Cottrell & Associates, P.C., who performed audit work for us at the Department of Transportation.

Improve on Timely Closing of Construction Projects

The Department of Transportation's Projects and Grants Section is responsible for closing federal projects in a timely manner by ensuring that internal procedures and requirements have been met. Issuance of the final voucher to the Federal Highway Administration (FHWA) closes the project, which prevents future charges to the project. Final vouchers should be submitted to FHWA within 12 months after the construction contractor is released from further liability, except in cases where a third party or litigation has caused a delay. Over the past several years, audit recommendations for the Department have included a recommendation to close federal construction projects on a more timely basis. During the current year we noted that the Projects and Grants Section has made significant

progress and has virtually eliminated their backlog of projects awaiting final voucher. However, the overall closing process continues to be delayed by other factors, including delays caused by:

- Failure to obtain contractor certifications and documentation on a timely basis.
- Delays due to the project engineer's not submitting required project documentation to the finals engineers within 45 days of project acceptance.
- Delays in project closure when local entities administer projects; generally local entities are less familiar with Department and FHWA documentation requirements.
- Failure to perform the finals review process in a timely manner.
- Delays in certifying contractor payrolls for compliance with Davis-Bacon and other labor-related certifications.

The Department has made progress over the past few years in accelerating the closing process by implementing a "Closing Project Phases" policy and a document tracking procedure. During 1996 the Department assembled a Project Closure Review Team that was charged with improving the project closure process by establishing methods that will result in timely, accurate project closure. The Team identified the delays noted above as obstacles to closure of projects in a timely manner, but has been unsuccessful to date in resolving these delays.

Resolution of project closure delays will require process change and improvements to be implemented throughout the construction and finals process. Consistent with the "cradle to grave" approach for project management adopted under the re-engineering of the Department, consideration should be given to assigning one individual the task of monitoring the entire closure process, along with the responsibility for the completion of the project closeout in a timely manner. The Department should ensure that this individual has sufficient authority to affect the completion of the tasks in a timely manner.

Recommendation No. 28:

The Department of Transportation should improve on the closing of construction projects in a timely manner by implementing process change improvements throughout the construction and finals process. In addition, the Department should identify an individual responsible for the closeout of each project in a timely manner.

Department of Transportation Response:

Agree. The Center for Accounting will work with the various units involved in the project closure process to identify process improvements to help expedite closures.
